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DEPT FOR SCA/FO, SCA/RA, AND SCA/A
DEPT PASS FOR AID/ANE
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS OPIC
DEPT PASS FOR TDA FOR STEIN AND GREENIP
USOECD FOR ENERGY ATTACHE
CENTCOM FOR CSTC-A
NSC FOR JWOOD AND CSKERRY
TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT
OSD FOR SHIVERS
COMMERCE FOR DEES, CHOPPIN, AND FONOVICH

SENSITIVE

SIPDIS

E.O. 12958 N/A

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SUBJECT: Afghan Finance and Commerce Ministers Report Progress in Meeting IMF Program Conditions

REF: A) Kabul 558 and previous B) Kabul 633

SUMMARY AND COMMENT

1. (SBU) Finance Minister Zakhilwal told the Ambassador March 18 that the GIROA has met its revised revenue target for the fiscal year ending March 21 and thus fulfilled a key condition under its IMF program. He also described plans to increase revenues next fiscal year, including through a zero-tolerance policy on corruption that reduces revenues. Zakhilwal and Commerce Minister Shahrani both say the MOU between their ministries on Customs access to the fuel import depot at Hairatan - another IMF condition - is being implemented. While we will continue to urge MOF to document Customs receipts resulting from the reported new access, as required by the IMF, these ministerial assurances along with the revenue outcome raise hope that Afghanistan can resume good performance under the IMF program. End Summary and Comment

2. (SBU) The Ambassador began the meeting by congratulating Finance Minister Zakhilwal on parliamentary passage of the government's FY 2009-10 budget earlier in the day. A clearly elated Zakhilwal said he was worried the bill might not pass and that he had lobbied MPs who had threatened to vote against it. He said he has developed good relations with parliament by respectfully listening to MPs' concerns and candidly conveying his own views, including on the need to curtail meddling in MOF's hiring and firing decisions. The Ambassador stressed the importance of good relations between the MOF and parliament, praised Zakhilwal's efforts in this regard, and said the U.S. is ready to help if needed.

PROGRESS ON IMF CONDITIONS

3. (SBU) In the course of the meeting an aide entered to report that the government has met the revised FY 2008-09 revenue target of Afs 40 billion. Zakhilwal (ref A) had been saying the government would come close but probably fall just short of the target. He told the Ambassador that his goal is eventually to cover the government's operating costs from domestic revenue sources and that with new measures the government can double the revenue it now collects. He reviewed his plans (see ref A), which he described as targeted interventions, e.g. increasing fees for vehicle registration while speeding the process to receive one. Most other ministries have

indicated a willingness to cooperate with his plans, but Zakhilwal noted that the Ministry of Mines (MOM) was resisting efforts to improve revenue collection from mining concessions (see ref B). Zakhilwal said that at his instigation the cabinet has created a committee to look into revenue collection by ministries other than MOF.

¶4. (SBU) Zakhilwal said the MOU between MOF and the Ministry of Commerce on Customs access to the state-run fuel import depot at Hairatan is now being "fully implemented." Documenting customs receipts from implementation of this MOU is a prior action for completion of the fifth review under Afghanistan's IMF program. Zakhilwal said his Director General for Customs is now in Hairatan overseeing implementation. (In a separate meeting March 16, Commerce Minister Shahrani also assured EconCouns and Finatt that the MOU is being implemented. While expressing consternation that his ministry had been unfairly criticized for foot-dragging on this issue, Shahrani said the MOU should be extended to import operations at the border crossing points of Torghundi and Islam Qala.)

¶5. (SBU) Comment: The specific IMF prior action is a report showing two weeks of Customs collections at Hairatan. It remains to be seen whether/how the government will fulfill this specific requirement. Post will continue to urge preparation of this report and continued implementation of the MOU. Following the meeting, Deputy Finance Minister Sabit informed Finatt that the President had signed into law amendments to Afghanistan's income tax legislation, introducing a 2 percent business receipts tax on imports, thereby fulfilling another IMF prior action.

FIGHTING CORRUPTION TO CAPTURE LOST REVENUE

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¶6. (SBU) In discussing the fuel import issues, Zakhilwal reiterated his view that housecleaning at Customs is also important. He admitted that corruption, within both MOF and other ministries, impedes revenue generation and vowed to show "zero tolerance" for it. Zakhilwal requested U.S. support to strengthen the Internal Audit and Procurement departments at MOF, which will report directly to him, not a vice minister. A citizen's corruption complaint hotline will be publicized on television, and he will demand a daily summary on calls received. He will meet with provincial Customs directors to convey the new zero-tolerance policy; those unwilling to cooperate will be replaced. MOF will also conclude an MOU with the High Office of Oversight (HOO), one of the government's main anti-corruption units, to increase outside oversight at MOF. The Ambassador urged streamlining of government and clarifying the different ministries' mandates, to reduce overlap and opportunities for corruption. For example, the number of approvals required for a government service should be reduced, usually to one, and the remaining approving authority held accountable.

¶7. (SBU) Zakhilwal also acknowledged that problems exist with high expenditures and promised greater spending restraint through increased MOF oversight of major procurement contracts. He said he had rejected some two dozen contracts in recent weeks because costs were 20 percent higher than the value of the goods and services the government was receiving. He also plans to crack down on the practice of other ministries signing contracts first and seeking MOF approval later.

¶8. (SBU) The Ambassador welcomed the good news on revenues and Hairatan, as well as Zakhilwal's plans to improve fiscal performance and fight corruption, and promised USG support. He said the U.S. believes the IMF plays a constructive role in Afghanistan and will continue to press them to do so.

ORGANIZING FOR DEVELOPMENT

¶9. (SBU) The Ambassador and Minister also discussed leadership of the Joint Control and Monitoring Board (JCMB) and implementation of the Afghanistan National Development Strategy (ANDS). Zakhilwal admitted that the JCMB needs more active Afghan government leadership and that the multi-ministry implementation structure for ANDS implementation is not ideal. The Ambassador added that the

Obama Administration is tackling many issues and quickly putting its own structures in place. If the GIROA can soon streamline its ANDS implementation structures, the two countries can progress together.

¶10. (SBU) The Ambassador said the international community also needs to improve donor coordination and that the U.S. wants to channel more of its aid funding through Afghan systems and the national budget, but that current mechanisms must be reinforced in order to improve accountability. The U.S. also seeks way to increase discretionary budgetary resources for the provinces. Zakhilwal supported the latter objective, provided provincial accountability could be assured. One idea, he said, might be to strengthen MOF offices in the provinces (mustufiat), which could help increase accountability to Kabul when aid funds were provided directly to provinces.

WOOD